

Message Text

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ACTION EB-07

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SUBJECT: OPEC PRICE HIKE EFFECT ON SPAIN

REF: STATE 306331

1. BEGIN SUMMARY: DIFFERENT OPEC PRICE HIKE FORMULAS YIELD
BLENDED 9.5 PERCENT
PRICE INCREASE FOR SPANISH IMPORTS IN 1977 ASSUMING PRICE INCREASE
INTENTIONS AS SUSTAINABLE, WHICH ADDED TO EXPECTED TWO PERCENT
INCREASE IN IMPORTS MEANS 12 PERCENT INCREASE IN IMPORTED OIL
BILL FOR THE COMING YEAR. TRADE DEFICIT IN OIL WILL BE \$4.3 BILLION
FOR 1976. MAIN HOPE TO REDUCE EXPECTED HIGHER OIL BILL WOULD BE RETUR
N
TO GREATER DEPENDANCE ON HYDRO-ECLETRIC POWER. END SUMMARY.

2. EMBASSY PREVIOUSLY PROJECTED SPANISH IMPORTS OF 46 MILLION
TONS CRUDE OIL IN 1976 AND 50 TO 51 MILLION TONS IN 1977. HIGHER
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THAN NORMAL IMPORTS IN LATE 1976. AND APPARENT ATTEMPT TO STOCK
PILE OIL BEFORE OPEC PRICE INCREASE, HAVE LED TO READJUSTMENT OF
OF THESE FIGURES TO 48 MILLIONS TONS FOR 1976 AND 49 MILLION
TONS FOR 1977 INCREASE IN IMPORTS FOR 1977 WITH NO PRICE INCREASE
WOULD INCREASE OIL BILL BY TWO PERCENT.

3. ASSUMING OIL IMPORTS FOLLOW CURRENT SOURCING PATTERNS SPAIN WOULD IMPORT SOMETHING BETWEEN 40 AND 45 PERCENT OF CRUDE FROM THE "FIVE PERCENTERS" (SAUDI ARABIA AND THE UAE WHICH OPTED FOR A FIVE PERCENT INCREASE) AND THE BALANCE FROM THE "PRICE HAWKS" (THE REST OF OPEC WHICH AFOPTED A 10 PERCENT HIKE FOR THE FIRST HALF OF 1977 WITH AN ADDITIONAL 5 PERCENT HIKE AT MID YEAR, YIELDING IN ROUGH TERMS A 12.5 PERCENT HIKE FOR THE YEAR). BASED ON THIS ASSUMPTION THAT THE PRICE INCREASE INTENTIONS ARE SUSTAINABLE THE PROBABLE PRICE HIKE FOR WHOLE OF 1977 WOULD BE ON THE ORDER OF 9.4 OPERCENT. ADDING COST INCREASE DUE TO PROJECTED INCREASE IN IMPORTS, 2 PERCENT, TOTAL INCREASE IN THE

OIL BILL FOR SPAIN IN 1977 WOULD BE 11 TO 12 PERCENT, CLEARLY CAUSE FOR ALARM.

4. SPAIN'S IMPORTED OIL BILL FOR 1976 IS EXPECTED TO BE NEAR DRMT BILLION. SUBTRACTING A GENEROUS ESTIMATE FOR NET EARNING FROM OIL PRODUCT TRADE OF 185 MILLION, THE TRADE DEFICIT FROM OIL AMOUNTS TO \$4.3 BILLION. A 12 PERCENT INCREASE WOULD MEAN AN OIL BILL IN 1977 OF OVER \$5 BILLION. ASSUMING SIMILAR NET EARNING FROM OIL PRODUCT TRADE, THE TRADE DEFICIT FROM OIL WOULD COME IN AT \$4.8 BILLION.

5. SPAIN HAS DONE THE PRUDENT THING SO FAR BY TRYING TO STOCKPILE AS MUCH CRUDE AS IT CAN BEFORE THE PRICES RISE. IT WILL NO DOUBT COMPETE WITH ALL OTHER CUSTOMERS FOR ALARGER SUPPLY FROM THE "FIVE PERCENTERS".

6. SPAIN IS ALSO IN THE MIDST OF A VERY AMBITIOUS NUCLEAR LIMITED OFFICIAL USE

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POWER PROGRAM BUT IS ENCOUNTERING SOME DELAYS DUE TO MAINLY TO INTERNATIONA CEONCERN WITH THE POSSIBLE WEAPONS THREAT POSED BY PROLIFERATION OF NUCLEAR TECHNOLOGY. IN ANY EVENT, THIS PROGRAM OFFERS LITTLE HOPE TO ALLEVIATE THE IMMEDIATE OIL IMPORT SITUATION SINCE ONLY ONE NEW REACTOR WILL COME ON STREAM IN 1977.

7. SPAIN DOES HAVE ONE ALTERNATIVE SOME HYDROELECTRIC POWER WAS PURPOSELY RETIRED IN 1975 SO THAT ITS SHARE IN PROVIDING ELECTRICITY FELL FROM ITS HISTROIC 50 PERCENT TO ONLY 32 PERCENT THIS YEAR'S RAINS HAVE ALMOST FULLY REPLENTISHED RESERVIOIRS PREVIOUSLY DRAWN DOWN TO DANGEROUS LEVELS DURING THE DROUGHTS OF 1974-76. SPAIN COULD CONCEIVABLY LET HYDRO POWER REPLACE MAYBE TEN PERCENT OF OIL BASED POWER IN 1977 THUS REDUCING OIL IMPORT DEMAND BY ABOUT FIVE PERCENT. STABLER

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